

Message Text

SECRET

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INFO OCT-01 ISO-00 SSO-00 NSCE-00 CCO-00 /016 R

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DRAFTED BY: L/-O:DMACF:COS

APPROVED BY: S/S-O:DMACK

ANAYSIS NOTE: REENTERED FOR DISTRIBUTION ONLY

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O 211915Z JAN 76 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

S E C R E T STATE 015140 TOSEC 010072

EXDIS

FOL REPEAT OF ROME 0973 TO SECSTATE INFO PARIS JAN 21

QTE:

S E C R E T ROME 0973

EXDIS

DEPT PASS USDEL SECRETARY

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

PARIS PASS TREASURY ATTACHE FOR D.C. TEMPLEMAN

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: CLOSING OF ITALIAN EXCHANGE MARKET

REF: ROME 0971

1. IN CONVERSATION WITH ECMIN MORNING JANUARY 21 (TREASURY ATTACHE OUT OF COUNTRY), BANK OF ITALY DIRECTOR GENERAL OS-SOLA PROVIDED FOLLOWING INFORMATION ON CLOSING OF ITALIAN SECRET

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EXCHANGE MARKET:

(A) BOI GOVERNOR BAFFI HAS OFFICIALLY INFORMED FEDERAL RESERVE CHAIRMAN BURNS AND HE UNDERSTANDS THAT TREASURY MINISTER COLOMBO HAS INFORMED SECRETARY SIMON.

(B) WHILE HEAVY SPECULATION AGAINST LIRA OBVIOUSLY LINKED TO POLITICAL CRISIS, WIDESPREAD PUBLICITY GIVEN TO ACTIONS OF COMPTROLLER OF THE CURRENCY VIS-A-VIS U.S. BANK OPERATIONS IN ITALY WAS CONTRIBUTING FACTOR.

(C) DECISION TO CLOSE EXCHANGE MARKET CAME QTE ONE WEEK TOO LATE UNQTE. OSSOLA HAD BEEN URGING THAT COURSE OF ACTION FOR PAST WEEK, BUT HE UNABLE OVERCOME GOI RELUCTANCE, APPARENTLY BASED ON POLITICAL CONSIDERATIONS, UNTIL EVENING JANUARY 20.

(D) INITIAL INDICATIONS ARE THAT LIRE IS SETTLING AT RATE AROUND 715 TO THE DOLLAR. WHILE STRESSING THAT THIS WAS VERY PRELIMINARY, OSSOLA SAID THIS QTE SLIGHT DEVALUATION UNQTE WAS CONSIDERABLY LESS THAN BOI ESTIMATES.

(E) SPECULATIVE PRESSURE HAS NOW SHIFTED TO FRENCH FRANC. AS OF MID-MORNING FRENCH MONETARY AUTHORITIES HAD ALREADY SPENT \$77 MILLION TO SUPPORT FRANCE.

(F) OSSOLA UNWILLING MAKE ANY GUESS HOW LONG MARKET WOULD REMAIN CLOSED.

(G) MAJOR EFFORT TO BOLSTER ITALY'S FINANCIAL POSITION IS REQUEST FOR \$450 MILLION DRAWING FROM IMF, I.E., 45 PERCENT INCREASE IN ITALY'S TRANCHES AS RESULT OF RECENT KINGSTON MEETING. BOI VICE DIRECTOR GENERAL ERCOLANI ARRIVING WASHINGTON AFTERNOON JANUARY 22, AND OSSOLA APPARENTLY HOPEFULLY OF FAVORABLE ACTION BY IMF WITHIN ABOUT TEN DAYS. REQUEST FOR DRAWING UNDER US-ITALY SWAP ARRANGMENT (STATE 14401 NOTAL), WHICH OSSOLA NOTED PARENTHETICALLY WAS NOT AS AUTOMATIC AS BOI HAD THOUGHT, WOULD BE TO COVER ITALY FOR PERIOD UNTIL IMF DRAWING CONCLUDED.

2. CLOSING OF EXCHANGE MARKET ADDS NEW FACTOR TO ALREADY-CONFUSED POLITICAL SITUATION. WHILE OSSOLA DECLINED TO BE SECRET

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DRAWN INTO DISCUSSION OF POLITICAL RAMIFICATIONS, EMBASSY EXPECTS THAT BOI'S ACTION, WHICH CAN HARDLY BE FAULTED BY PSI AND/OR PCI, SHOULD REDOUND TO ADVANTAGE OF CHRISTIAN DEMOCRATS (DC). DC CRITICISM OF PSI FOR BRINGING DOWN THE GOVERNMENT AT TIME OF ECONOMIC CRISIS IS NOW REINFORCED, AND DC SHOULD FIND PSI MORE ON DEFENSIVE IN THEIR NEGOTIATIONS ON FORMATION OF NEW GOVERNMENT. VOLPE UNQTE SISCO

SECRET

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, MARKETS, FINANCIAL CRISIS, CLOSING OF OFFICES, FOREIGN EXCHANGE, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JAN 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE015140
Document Source: CORE
Document Unique ID: 00
Drafter: O:DMACF:COS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760023-0417
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760136/aaaabgam.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 76 ROME 971
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 07 JAN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JAN 2004 by morefirh>; APPROVED <07 JAN 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CLOSING OF ITALIAN EXCHANGE MARKET
TAGS: EFIN, IT
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006